



COMMITMENT
INTEGRITY
LEADERSHIP

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FACT SHEET

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State High Risk

The California State Auditor's Updated Assessment of High-Risk Issues Faced by the State and Select State Agencies

Background

With more than \$200 billion in annual expenditures, California government is a major contributor to one of the largest economies in the world. Identifying and addressing high-risk issues in state government can enhance efficiency and effectiveness by focusing the State's resources on improving the delivery of services related to important programs or functions. Our biennial reports on high-risk issues, as authorized in January 2005, list those issues or agencies that our office identifies as high risk for their potential of waste, fraud, abuse or mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness. In this 2019 update, we add the State's financial reporting and accountability to our high risk list and remove two items—Covered California and the State's workforce and succession planning—from our list.

Key Review Results

- The State's financial reporting and accountability is now a high risk issue. The State has focused significant efforts on the Financial Information System for California (FI\$Cal) project to modernize its financial structure. The cost has nearly doubled since 2012 to more than \$1 billion and is currently under the eighth revision to its scope, schedule, and budget. It will not deliver key features and since many state entities began implementing FI\$Cal, they have struggled to submit timely data for the State's annual financial statements—an issue that could ultimately negatively affect the State's credit rating and lead to increased borrowing costs.
- Although the State has made some progress in addressing high-risk issues and challenges previously reported, the following remain on our high risk list:
 - » The State's infrastructure—its aging water infrastructure continues to threaten public safety, and the State's long-term water supply remains uncertain. Further, the aging transportation infrastructure system remains high risk as repair efforts continue—it is too early to determine if changes in laws will fully address repair needs.
 - » Oversight of the State's Information Technology (IT)—although the State updated its IT project approval process, its effectiveness is unknown and we remain concerned about the implementation of the State's information systems and continued reliance on legacy systems. In addition, because of continued deficiencies in information system controls, information security continue to challenge the State.
 - » Public education—Kindergarten through 12th Grade education remains high risk because the State has not ensured that local educational agencies spend additional funds they receive through the Local Control Funding Formula to support vulnerable classifications of students appropriately. Higher education also remains high risk because affordability issues persist within California's public university systems.
 - » Fiscal issues related to pension liabilities and other postemployment benefits are high risk because of the significant time necessary to reduce unfunded liabilities.
 - » Three departments—the California Department of Corrections and Rehabilitation, the California Department of Health Care Services, and the California Department of Public Health—have not addressed recommendations related to concerns with various systems or processes that could affect health and safety.